

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Romeo	County MaComb
Audit Date 6/30/05	Opinion Date 10/25/05	Date Accountant Report Submitted to State: 12/28/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

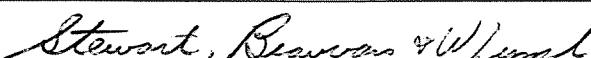
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☒ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple			
Street Address 1979 Holland Ave.	City Port Huron	State MI	ZIP 48060
Accountant Signature 		Date 12-28-05	

VILLAGE OF ROMEO, MICHIGAN

**ANNUAL FINANCIAL STATEMENTS
with Supplementary Information**

**FOR THE YEAR ENDED
JUNE 30, 2005**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

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VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the President and Members
of the Village Board
Village of Romeo, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the Village of Romeo, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Romeo's management. Our responsibility is to express opinions on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Romeo, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2005 on our consideration of the Village of Romeo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8, and schedules of budgetary comparisons on pages 41 through 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Romeo's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

October 25, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS

The Village of Romeo's 2005 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds and component unit information. The basic financial statements include two kinds of statements that present different views of the Village. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Village's government, reporting the Village's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The government-wide statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the Village's net assets and how they have changed. Net assets, defined as the difference between the Village's assets and liabilities, are one way to measure the Village's financial health or position.

The government-wide financial statements of the Village are divided into two categories:

Governmental activities - most of the Village's basic services are included here, such as the police, fire, public works, parks and recreation, general administration and debt retirement. Property taxes, state-shared revenues, charges for services, and most of the funding.

Business-type activities - the Village charges fees to customers to help it cover the costs of certain services it provides. The water and sewer operations are treated as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Village's most significant funds; not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Village Council establishes other funds to control and manage money for particular purposes.

The Village has three kinds of funds:

Governmental funds - Most of the Village's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. The Village currently has 13 governmental funds.

Proprietary funds - Proprietary funds use the accrual basis of accounting, which is the same basis used by the private businesses. The Village maintains two different types of proprietary funds.

Enterprise Funds - are used to report services for which the Village charges customers a fee for those services. The Village has two enterprise funds, the Water and Sewer Funds.

Internal Service Funds - report activities that provide services and supplies to other Village programs. The Village utilizes a Motor Pool internal service fund.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Village's operations.

FINANCIAL OVERVIEW (Government-wide financial analysis)

The Village has combined total net assets of \$14,303,396 million. This is an increase of \$203,634 over 2004. Government-type activities comprise \$4,785,952 million, and business-type activities make up \$9,517,444 million of the total net assets. In a condensed format, the table below shows net assets as of June 30, 2005.

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
Assets				
Current assets	\$ 3,329,335	\$ 4,023,236	\$ 725,753	\$(16,128)
Restricted assets	-	-	5,850,777	15,220
Capital assets	<u>2,712,893</u>	<u>2,675,376</u>	<u>12,158,376</u>	<u>10,707,023</u>
Total assets	<u>6,042,228</u>	<u>6,698,612</u>	<u>18,734,906</u>	<u>10,706,115</u>
Liabilities				
Current liabilities	237,799	158,580	149,870	85,635
Restricted liabilities	-	-	1,210,928	-
Long-term liabilities	<u>1,018,477</u>	<u>1,079,470</u>	<u>7,856,664</u>	<u>1,981,281</u>
Total liabilities	<u>1,256,276</u>	<u>1,238,050</u>	<u>9,217,462</u>	<u>2,066,916</u>
Net Assets				
Invested in capital assets -				
Net of related debt	1,832,151	1,685,992	8,982,184	8,359,155
Restricted	1,481,455	1,769,686	2,262	15,220
Unrestricted	<u>1,472,346</u>	<u>2,004,884</u>	<u>532,998</u>	<u>264,824</u>
Total net assets	<u>\$ 4,785,952</u>	<u>\$ 5,460,562</u>	<u>\$ 9,517,444</u>	<u>\$ 8,639,199</u>

The Village's governmental activities experienced a net change in assets of \$(674,611). This is a result of a \$209,371 decrease in tax revenue, \$71,189 decrease in royalties income, and increased transfers out to business-type activities of \$391,103. The business-type activities experienced an increase in net assets of \$878,245. This is a result of transfers from the General Fund increased \$391,103 and capital contributions from Bruce Township increased \$521,673. Over the past few years the General Fund has subsidized the water and sewer operations.

The following table shows the changes in net assets for 2005.

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
Revenue				
Program revenue:				
Charges for services	\$ 158,978	156,632	\$ 849,549	841,085
Operating grants and contributions	249,890	251,307	-	-
Capital grants and contributions	-	-	573,044	51,371
General revenue:				
Property taxes	2,523,173	2,732,544	-	-
State-shared revenue	396,526	401,090	-	-
Unrestricted investment earnings	50,226	71,189	54,419	-
Unrestricted royalty income	-	34,009	-	1,569
Total Revenue	<u>3,378,793</u>	<u>3,646,771</u>	<u>1,477,012</u>	<u>894,025</u>
Program Expenses				
General government	465,511	418,507	-	-
Public safety	1,409,257	1,333,389	-	-
Public works	975,104	818,377	-	-
Recreation and culture	39,617	38,607	-	-
Other activities	121,309	125,477	-	-
Interest on long-term debt	53,874	65,526	-	-
Water	-	-	675,362	735,446
Sewer	-	-	912,137	791,943
Total Program Expenses	<u>3,064,672</u>	<u>2,799,883</u>	<u>1,587,499</u>	<u>1,527,389</u>
Changes in net assets before transfers	314,121	846,888	(110,487)	(633,364)
Transfers between funds	(988,732)	(607,366)	<u>988,732</u>	<u>607,366</u>
Changes in net assets	<u><u>\$ (674,611)</u></u>	<u><u>\$ 239,522</u></u>	<u><u>\$ 878,245</u></u>	<u><u>\$ (25,998)</u></u>

Governmental Activities

Revenues for governmental activities totaled \$3,378,793 million in 2005. Of this amount \$2,523,173 million or 75% was received from taxes followed by state Shared Revenue of 12%.

Business-type Activities

The Village has two business-type activities, water and wastewater. The Village operates its own water and sewage treatment facility as well as purchasing water for the Detroit Water Board for certain customers. The water and wastewater funds had a net increase in net assets of \$129,824 and \$748,421, respectively.

FINANCIAL ANALYSIS OF MAJOR FUNDS

The General Fund ended 2005 with a fund balance of \$1,123,417, of which \$137,735 was designated for vested accrued vacation and sick time, \$6,292 was reserved for prepaid expenditures, with the remaining amount of \$979,390 unreserved. This is a decrease of \$430,567 from the prior year. This decrease is mainly as a result of taxes being less than budgeted by \$87,338, and transfers to other funds being \$346,087 more than budgeted.

The Major Street Fund ended 2005 with a fund balance of \$1,030,212 and increase of \$32,181. This increase is a result of receiving \$31,459 more of Act 51 revenue's than anticipated.

The other major funds are the Water Supply System and Wastewater Fund which have been discussed earlier.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Village administration and Council monitor the budget, and if necessary, amend the budget to take into account unanticipated events that occur during the year. During the year no amendments were made and operating results varied significantly from the budget in the following areas:

General Fund

- Property tax revenues were \$87,338 less than budgeted because of overestimating Personal Property taxes and not taking into account the DDA capture.
- The Police Department spent \$39,113 more than budgeted as a result of an approved lease of three police vehicles. Other financing sources were \$70,178 more than budgeted as a result of the vehicle leases.
- Transfers to other funds were \$346,087 more than budgeted because of underestimating \$280,100 transfers to the Wastewater Fund, \$20,000 to the Municipal Street Fund and \$17,400 to the Inspection Fund.

Major Streets

- Revenue was \$34,530 more than budgeted as a result of receiving \$31,459 more of Act 51 revenue's than anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Village had \$14,871,269 invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2005. The investment in capital assets includes, land, building and building improvements, machinery and equipment, vehicles, and water and sewer systems. Infrastructure (e.g. roads, drains, etc.) purchased on or after July 1, 2003 is also included. During the year the Village added approximately \$2,079,195 of capital assets before taking into account depreciation, \$260,782 in the governmental activities and \$1,818,413 in the business activities. The only disposals for the year were three police vehicles which were traded in when three new vehicles were leased therefore decreasing capital assets in the governmental activities by \$75,842. The most significant items in the governmental activities were the Village Park improvements, three new vehicles for the police department, and an upgrade to the 911 system. The addition in the business activities was for the expansion and upgrade of the Wastewater Treatment Plant. Depreciation for the year was \$552,403.

The following table shows the capital assets at June 30, 2005:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Land	\$ 681,473	\$ 15,316
Land improvements	397,095	-
Building and improvements	1,623,290	7,285,842
Machinery and equipment	720,989	1,703,184
Vehicles	1,137,322	-
Infrastructure	75,644	-
Utility systems	-	7,892,475
Construction in progress	-	2,853,317
	<u>4,635,813</u>	<u>19,750,134</u>
Accumulated depreciation	<u>(1,922,920)</u>	<u>(7,591,758)</u>
	<u>\$ 2,712,893</u>	<u>\$ 12,158,376</u>

Long-term Debt

At June 30, 2005, the Village had \$9,066,583 in long-term debt compared to \$3,147,476 at June 30 2004. During the year, the Village issued \$6,300,000 of 2004 General Obligation Limited Tax Bonds, dated December 1, 2004, for improvements and expansion to the wastewater system. The following table shows the long-term debt at June 30, 2005:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Bonds	\$ 755,000	\$ 7,500,000
Capital Leases	89,880	-
Notes/Contracts Payable	35,862	505,221
Compensated Absences	<u>137,735</u>	<u>42,885</u>
	1,018,477	8,048,106
Deferred Refunding Loss/Issuance Discounts	<u>-</u>	<u>(191,442)</u>
	<u>\$ 1,018,477</u>	<u>\$ 7,856,664</u>

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The Village of Romeo, population 3,721 (2000 Census) is primarily a residential community proud of its historic character, and small town charm, with a strong based industrial district. The reported median income level for the Village of Romeo is \$48,015 (SEMCOG profiles). There is one 15-acre area slated for multiple family district development, and one 55-acre site that is currently being developed under the Brownfield Redevelopment Plan, as approved by the State of Michigan, County of Macomb, and the Village of Romeo.

Many factors are considered in preparation of the Village's budget for the 2006 fiscal year. Those factors considered are as followed:

- The age of the community and its infrastructure is considered for long-term maintenance projects. The Village has authorized its engineering firm to perform a Sanitary Sewer Evaluation Study on the entire sewer system. The project is in the third year of development, and will require funding in the 2006 fiscal year for designated areas of rebuilding failing catch basins, and the elimination of a storm line that interferes with a sanitary line, and creating a general inventory of the lines. The construction will be spread out over the next two years, for an estimated of \$458,000.
- The Board of Trustees increased the water rates from \$9.40 to \$11.00 in November of 2002; however, the sewer rates have not been raised in over 22 years. While the Board has made a decision to subsidize the water and sewer system from the General Fund, strong consideration for increasing the rates should be made in order to keep up with the daily maintenance costs of operating the utilities. The General Fund also covers the debt on the upgrade and expansion of the Wastewater Treatment Plant.
- The Village local streets within the central business district are in need of repair and repaving. Two local streets in the industrial district are in need of repair and repaving. Two local streets within the industrial district are in need of repaving. While the Board did authorize to have a portion of this plan prepared for bidding, the funding was not available, and the project, while on hold, will need an update to include other deteriorating streets. The Board of Trustees may need to request the use of Major Street Funds to assist with the cost of this project.
- Ford Motor Company proportionately is the largest taxpayer to the Village of Romeo. However, the strength of the smaller industrial companies in the district continues to stand ground during the economic troubles taking place with other automotive companies in the State of Michigan. The new development of 55 acres in the industrial district will be a benefit to the Village, as well as to the entire area.

Overall, the general maintenance and operation of the Village of Romeo has been kept up to date, and under constant review by the Clerk/Administrator, Supervisors and reported to the Board of Trustees on a monthly basis.

CONTACTING THE VILLAGE

This financial report is designed to provide a general overview of the Village's finances to our residents and other interested parties in understanding the Village's financial condition. If you have questions about this report or need additional financial information, please contact the Village/Clerk Administrator, Marian T. McLaughlin, at 586-752-3565, or in writing to the same, 121 W. St. Clair, Romeo, MI 48065.

BASIC FINANCIAL STATEMENTS

VILLAGE OF ROMEO, MICHIGAN

STATEMENT OF NET ASSETS JUNE 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	DDA
ASSETS:				
Cash and cash equivalents	\$ 2,169,891	\$ 366,171	\$ 2,536,062	\$ 219,285
Investments	701,427	-	701,427	-
Receivables (net of allowance)	271,117	370,398	641,515	-
Due from primary government	-	-	-	57,041
Prepaid expenditures	176,084	-	176,084	-
Internal balances	10,816	(10,816)	-	-
Restricted Assets -				
Cash and cash equivalents	-	1,644,460	1,644,460	-
Investments	-	3,720,499	3,720,499	-
Due from other governmental units	-	485,818	485,818	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	681,473	2,868,633	3,550,106	-
Assets being depreciated	2,031,420	9,289,743	11,321,163	-
Total Assets	<u>6,042,228</u>	<u>18,734,906</u>	<u>24,777,134</u>	<u>276,326</u>
LIABILITIES:				
Payables and accrued liabilities	170,245	55,077	225,322	-
Accrued interest	10,513	94,793	105,306	-
Due to component unit	57,041	-	57,041	-
Current liabilities payable from restricted assets	-	1,210,928	1,210,928	-
Non-current liabilities				
Due within one year	161,276	463,637	624,913	-
Due in more than one year	857,201	7,393,027	8,250,228	-
Total Liabilities	<u>1,256,276</u>	<u>9,217,462</u>	<u>10,473,738</u>	<u>-</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	1,832,151	8,982,184	10,814,335	-
Restricted				
Debt service	86,297	-	86,297	-
Acquisition/construction of capital assets	39,196	2,262	41,458	-
Other	1,355,962	-	1,355,962	-
Unrestricted	<u>1,472,346</u>	<u>532,998</u>	<u>2,005,344</u>	<u>276,326</u>
Total Net Assets	<u>\$ 4,785,952</u>	<u>\$ 9,517,444</u>	<u>\$ 14,303,396</u>	<u>\$ 276,326</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ROMEO, MICHIGAN

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	\$ 465,511	\$ 84,433	\$ -	\$ -
Public Safety	1,409,257	61,407	6,032	-
Public Works	975,104	2,688	199,993	-
Recreation and Culture	39,617	10,450	43,865	-
Other Activities	121,309	-	-	-
Interest on Long Term Debt	53,874	-	-	-
Total governmental activities	<u>3,064,672</u>	<u>158,978</u>	<u>249,890</u>	<u>-</u>
Business type activities				
Water Supply System	675,362	353,676	-	-
Wastewater	912,137	495,873	-	573,044
Total business type activities	<u>1,587,499</u>	<u>849,549</u>	<u>-</u>	<u>573,044</u>
Total Primary Government	<u>4,652,171</u>	<u>1,008,527</u>	<u>249,890</u>	<u>573,044</u>
Component Units				
Downtown Development Authority	<u>66,185</u>	<u>-</u>	<u>-</u>	<u>-</u>
General revenues:				
Property taxes				
Grants and contribution not -				
restricted to specific programs				
Unrestricted investment income				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets at beginning of year				
Net assets at end of year				

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Governmental Activities	Primary Government		Component Units
	Business Type Activities	Total	DDA
\$(381,078)	\$ -	\$(381,078)	\$ -
(1,341,818)	-	(1,341,818)	-
(772,423)	-	(772,423)	-
14,698	-	14,698	-
(121,309)	-	(121,309)	-
(53,874)	-	(53,874)	-
<u>(2,655,804)</u>	<u>-</u>	<u>(2,655,804)</u>	<u>-</u>
-	(321,686)	(321,686)	-
-	156,780	156,780	-
-	(164,906)	(164,906)	-
<u>(2,655,804)</u>	<u>(164,906)</u>	<u>(2,820,710)</u>	<u>-</u>
-	-	-	(66,185)
2,523,173	-	2,523,173	127,993
396,526	-	396,526	-
50,226	54,419	104,645	3,150
(988,732)	988,732	-	-
<u>1,981,193</u>	<u>1,043,151</u>	<u>3,024,344</u>	<u>131,143</u>
(674,611)	878,245	203,634	64,958
<u>5,460,563</u>	<u>8,639,199</u>	<u>14,099,762</u>	<u>211,368</u>
<u>\$ 4,785,952</u>	<u>\$ 9,517,444</u>	<u>\$ 14,303,396</u>	<u>\$ 276,326</u>

VILLAGE OF ROMEO, MICHIGAN

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2005

	General	Major Street	Other Governmental Funds	Total Governmental Funds
ASSETS				
Assets:				
Cash and cash equivalents	\$ 1,045,604	\$ 315,178	\$ 662,482	\$ 2,023,264
Investments	-	701,427	-	701,427
Receivables -				
Interest and accounts	9,639	-	1,677	11,316
Property taxes	81,248	-	-	81,248
Due from other governmental units -	-			
Federal/State	131,687	20,292	19,867	171,846
Local	6,773	-	40,557	47,330
Due from other funds	24,189	-	42,919	67,108
Prepayments and deposits	6,292	-	43,865	50,157
	<u>1,305,432</u>	<u>1,036,897</u>	<u>811,367</u>	<u>3,153,696</u>
Total Assets	<u>\$ 1,305,432</u>	<u>\$ 1,036,897</u>	<u>\$ 811,367</u>	<u>\$ 3,153,696</u>
Liabilities:				
Accounts payable	\$ 34,814	603	\$ 108,424	\$ 143,841
Accrued liabilities	10,527	74	3,796	14,397
Due to other funds	-	6,008	78,115	84,123
Due to component units	57,041	-	-	57,041
Deferred revenue	79,633	-	-	79,633
	<u>182,015</u>	<u>6,685</u>	<u>190,335</u>	<u>379,035</u>
Total Liabilities	<u>182,015</u>	<u>6,685</u>	<u>190,335</u>	<u>379,035</u>
Fund Balances:				
Reserved -				
Prepays	6,292	-	43,865	50,157
Debt Service	-	-	86,297	86,297
Capital Projects	-	-	39,196	39,196
Unreserved -				
Designated -				
Accrued vacation and sick	137,735	-	-	137,735
Undesignated -				
General Fund	979,390	-	-	979,390
Special Revenue Funds	-	1,030,212	451,674	1,481,886
Total Equity	<u>1,123,417</u>	<u>1,030,212</u>	<u>621,032</u>	<u>2,774,661</u>
	<u>1,305,432</u>	<u>1,036,897</u>	<u>811,367</u>	<u>3,153,696</u>
Total Liabilities and Fund Equity	<u>\$ 1,305,432</u>	<u>\$ 1,036,897</u>	<u>\$ 811,367</u>	<u>\$ 3,153,696</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ROMEO, MICHIGAN

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS JUNE 30, 2005

Fund Balances - total governmental funds		\$	2,774,661
Amounts reported for governmental activities in the statement of net assets are different because:			
Prepaid Expenses recorded in the funds on the purchase method			125,927
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets			3,635,001
Accumulated depreciation		(1,227,520)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.			
Delinquent personal property taxes			79,633
Allowance for uncollectible taxes receivable		(40,624)
Internal Service Fund used by management to charge cost of the City's motor pool activities. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			
			467,864
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Bonds/Notes payable	(779,429)	
Compensated absences	(137,735)	
Installment contracts	(11,433)	
Capital leases	(89,880)	
Accrued interest	(10,513)	(1,028,990)
Net Assets of governmental activities		\$	<u>4,785,952</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF ROMEO, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	General	Major Street	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 2,396,762	\$ -	\$ 119,954	\$ 2,516,716
Licenses and permits	1,370	-	-	1,370
Intergovernmental -				
State	402,558	125,459	74,534	602,551
Charges for services	-	-	27,945	27,945
Fines and forfeits	46,562	-	-	46,562
Interest and rent	26,663	13,071	20,942	60,676
Other	11,380	-	105,136	116,516
Total Revenues	<u>2,885,295</u>	<u>138,530</u>	<u>348,511</u>	<u>3,372,336</u>
Expenditures:				
Current -				
General Government	409,140	-	69,916	479,056
Public Safety	1,279,152	-	41,736	1,320,888
Public Works	377,748	54,906	582,620	1,015,274
Recreation and Culture	-	-	39,617	39,617
Other Activities	121,309	-	-	121,309
Capital Outlay	79,503	-	6,578	86,081
Debt Service				
Principal	54,128	-	124,692	178,820
Interest	2,708	-	52,499	55,207
Total Expenditures	<u>2,323,688</u>	<u>54,906</u>	<u>917,658</u>	<u>3,296,252</u>
Excess of revenues over (under) expenditures	<u>561,607</u>	<u>83,624</u>	<u>(569,147)</u>	<u>76,084</u>
Other Financing Sources (Uses):				
Proceeds from capital lease	70,178	-	-	70,178
Transfers In	-	-	265,137	265,137
Transfers Out	<u>(1,062,352)</u>	<u>(51,443)</u>	<u>(122,074)</u>	<u>(1,235,869)</u>
Total Other Financing Sources (Uses)	<u>(992,174)</u>	<u>(51,443)</u>	<u>143,063</u>	<u>(900,554)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(430,567)</u>	<u>32,181</u>	<u>(426,084)</u>	<u>(824,470)</u>
Fund Balances at beginning of year	<u>1,553,984</u>	<u>998,031</u>	<u>1,047,116</u>	<u>3,599,131</u>
Fund Balances at end of year	<u><u>\$ 1,123,417</u></u>	<u><u>\$ 1,030,212</u></u>	<u><u>\$ 621,032</u></u>	<u><u>\$ 2,774,661</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ROMEO, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES JUNE 30, 2005

Net change in fund balances - total governmental funds		\$(824,470)
Change in prepaid expenses recorded in the funds on the purchase method		(7,833)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay		187,267
Depreciation expense		(127,178)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		6,457
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.		178,820
Proceeds on capital lease provides current financial resources to governmental funds, however has no effect on net assets.		(70,178)
Internal service funds used by management to charge costs of the Village's motor pool activities. The net revenues (expenses) attributable to those funds is reported with governmental activities.		28,820
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
Decrease in accrued interest payable	1,333	
Increase in accrued compensated absences	(47,649)	(46,316)
Change in net assets of governmental activities		<u><u>\$(674,611)</u></u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF ROMEO, MICHIGAN

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2005

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water Supply System	Wastewater	Total	Internal Service Fund
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 59,971	\$ 306,200	\$ 366,171	\$ 146,627
Accounts and interest receivable	161,432	208,966	370,398	-
Due from other funds	-	132	132	28,296
	<u>221,403</u>	<u>515,298</u>	<u>736,701</u>	<u>174,923</u>
Restricted Assets:				
Cash and cash equivalents	2,262	1,642,198	1,644,460	-
Investments	-	3,720,499	3,720,499	-
Due from other governmental units	-	485,818	485,818	-
	<u>2,262</u>	<u>5,848,515</u>	<u>5,850,777</u>	<u>-</u>
Total Current Assets	<u>223,665</u>	<u>6,363,813</u>	<u>6,587,478</u>	<u>174,923</u>
Property, Plant and Equipment:				
Property, plant and equipment	8,996,690	10,753,444	19,750,134	1,000,813
Less - accumulated depreciation	(2,542,260)	(5,049,498)	(7,591,758)	(695,400)
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>6,454,430</u>	<u>5,703,946</u>	<u>12,158,376</u>	<u>305,413</u>
Total Assets	<u>6,678,095</u>	<u>12,067,759</u>	<u>18,745,854</u>	<u>480,336</u>
LIABILITIES:				
Current Liabilities:				
Accounts payable	27,673	22,047	49,720	11,354
Accrued expenses	483	4,874	5,357	653
Accrued interest	19,227	75,566	94,793	-
Loan payable (current portion)	338,637	125,000	463,637	-
Due to other funds	7,877	3,071	10,948	465
Total Current Liabilities	<u>393,897</u>	<u>230,558</u>	<u>624,455</u>	<u>12,472</u>
Current Liabilities- (Payable from Restricted Assets):				
Accounts payable	<u>-</u>	<u>1,210,928</u>	<u>1,210,928</u>	<u>-</u>
Long-Term Liabilities (less current portions):				
Accrued vacation and sick	9,936	32,949	42,885	-
Loan payable (net of current portion)	<u>1,296,278</u>	<u>6,053,864</u>	<u>7,350,142</u>	<u>-</u>
Total Long-Term Liabilities	<u>1,306,214</u>	<u>6,086,813</u>	<u>7,393,027</u>	<u>-</u>
Total Liabilities	<u>1,700,111</u>	<u>7,528,299</u>	<u>9,228,410</u>	<u>12,472</u>
NET ASSETS:				
Investment in capital assets, net	4,819,515	4,162,669	8,982,184	305,413
Reserved Equipment Replacement	2,262	-	2,262	-
Unrestricted				
Unreserved	<u>156,207</u>	<u>376,791</u>	<u>532,998</u>	<u>162,451</u>
Total Net Assets	<u>\$ 4,977,984</u>	<u>\$ 4,539,460</u>	<u>\$ 9,517,444</u>	<u>\$ 467,864</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ROMEO, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water Supply System	Wastewater	Total	Internal Service Funds
Operating Revenues:				
Charges for services	\$ 343,784	\$ 493,459	\$ 837,243	\$ -
Rents	-	-	-	152,369
Other	4,857	14	4,871	-
Total Operating Revenues	<u>348,641</u>	<u>493,473</u>	<u>842,114</u>	<u>152,369</u>
Operating Expenses:				
Personal services	115,432	310,127	425,559	28,259
Purchase of water	137,152	-	137,152	-
Utilities	50,885	86,619	137,504	-
Repairs and maintenance	12,465	48,723	61,188	21,160
Other	80,444	120,698	201,142	164
Depreciation	197,410	169,650	367,060	58,165
Total Operating Expenses	<u>593,788</u>	<u>735,817</u>	<u>1,329,605</u>	<u>107,748</u>
Operating Income (Loss)	<u>(245,147)</u>	<u>(242,344)</u>	<u>(487,491)</u>	<u>44,621</u>
Non-Operating Revenues:				
Interest earned	1,526	52,893	54,419	2,199
Tap fees	5,035	2,400	7,435	-
Interest expenses	<u>(81,574)</u>	<u>(176,320)</u>	<u>(257,894)</u>	<u>-</u>
Total Non-Operating Revenues	<u>(75,013)</u>	<u>(121,027)</u>	<u>(196,040)</u>	<u>2,199</u>
Net Income (Loss) Before Transfers	<u>(320,160)</u>	<u>(363,371)</u>	<u>(683,531)</u>	<u>46,820</u>
Other Financing Sources (Uses)				
Transfers In	449,984	538,748	988,732	-
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,000)</u>
	<u>449,984</u>	<u>538,748</u>	<u>988,732</u>	<u>(18,000)</u>
Net Income before contributions	129,824	175,377	305,201	28,820
Capital Contributions	<u>-</u>	<u>573,044</u>	<u>573,044</u>	<u>-</u>
Net Income	129,824	748,421	878,245	28,820
Net Assets at beginning of year	<u>4,848,160</u>	<u>3,791,039</u>	<u>8,639,199</u>	<u>439,044</u>
Net Assets end of year	<u>\$ 4,977,984</u>	<u>\$ 4,539,460</u>	<u>\$ 9,517,444</u>	<u>\$ 467,864</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ROMEO, MICHIGAN

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water Supply System	Wastewater	Total	Internal Service Funds
Cash Flows From Operating Activities:				
Cash receipts from customers	\$ 280,958	\$ 468,524	\$ 749,482	\$ -
Cash receipts from rental of equipment	-	-	-	152,369
Cash payments to suppliers	(285,237)	(259,755)	(544,992)	(32,636)
Cash payments to employees	(107,154)	(299,819)	(406,973)	(27,606)
Net Cash Provided (Used) by Operating Activities	(111,433)	(91,050)	(202,483)	92,127
Cash Flows From Noncapital Financing Activities:				
Due from/to other funds	25,790	(507,459)	(481,669)	(8,867)
Transfers from/to other funds	449,984	538,748	988,732	(18,000)
Net Cash Provided (Used) by Noncapital Financing Activities	475,774	31,289	507,063	(26,867)
Cash Flows From Capital and Related Financing Activities:				
Debt retirement	(420,888)	(100,754)	(521,642)	-
Unamortized bond costs	3,650	(121,136)	(117,486)	-
Bond Proceeds	-	6,300,000	6,300,000	-
Deferred amount on refunding	12,766	-	12,766	-
Tap fees	5,035	2,400	7,435	-
Capital contribution	-	87,226	87,226	-
Acquisition and construction of capital assets	-	(609,979)	(609,979)	(35,594)
Net Cash Used by Capital and Related Financing Activities	(399,437)	5,557,757	5,158,320	(35,594)
Cash Flows From Investing Activities:				
Investments		(3,720,499)	(3,720,499)	-
Interest earned	1,526	52,893	54,419	2,199
	1,526	(3,667,606)	(3,666,080)	2,199
Net Increase (Decrease) in Cash and Cash Equivalents for the year	(33,570)	1,830,390	1,796,820	31,865
Cash and Cash Equivalents at Beginning of Year	95,803	118,008	213,811	114,762
Cash and Cash Equivalents at End of Year	\$ 62,233	\$ 1,948,398	\$ 2,010,631	\$ 146,627
Reconciliation of Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss) for the year	\$(245,147)	\$(242,344)	\$(487,491)	\$ 44,621
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -				
Depreciation	197,410	169,650	367,060	58,165
Change in assets and liabilities:		-		
Receivable	(67,683)	(24,949)	(92,632)	-
Accounts payable/accrued expenses	3,987	6,593	10,580	(10,659)
Net Cash Provided (Used) By Operating Activities	\$(111,433)	\$(91,050)	\$(202,483)	\$ 92,127

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ROMEO, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	<u>\$ 650</u>
 LIABILITIES:	
Due to other governmental units	<u>\$ 650</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Village of Romeo, Michigan was incorporated as a General Law Village in 1838, under the provisions of the Constitution and general law of the State of Michigan, with its Charter provided by Act 3 of 1895. The Village is located in Northern Macomb County and covers an area of approximately 1.5 square miles. The Village operates under an elected Village Board, which consists of the President and six Board members, with the daily activities operated by the Village Administrator/Clerk and Treasurer. The Village provides services to its more than 3,700 residents in many areas including law enforcement, water, sewer, cemetery and parks and recreation.

These financial statements present the Village and its component unit, entities for which the Village is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Village.

DISCRETELY PRESENTED COMPONENT UNIT -

Downtown Development Authority - The Authority is controlled by a nine member Board, who are appointed by the Village President. The DDA is responsible for the creation of a development and financing plan for the Downtown district or a development area within the district to promote economic growth. The Authority must obtain Village Council approval of all development and financial plans. The annual operating budget and any modification also requires the approval of the Village Board.

B. Government-wide and fund financial statements -

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

VILLAGE OF ROMEO
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation -

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are normally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes which are levied on July 1, and due on August 31, are recognized as revenue in the year due. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

General Fund - is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund - is used to account for the revenues received from the State of Michigan under Act 51, which are specifically earmarked for construction and maintenance of roads designated as Major Streets in the Village.

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

The Village reports the following major proprietary funds:

Water Supply System Fund - is used to account for the treatment and distribution of water to residential and commercial users.

Wastewater System Fund - is used to account for sanitary sewer services provided to the residential and commercial users.

Additionally, the Village reports the following fund types:

Special Revenue Funds - are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

Debt Service Funds - are used to account for the accumulation of resources for, and the payment of long-term general obligation debt of governmental funds.

Capital Projects Fund - is used to account for revenue restricted for the acquisition and/or construction of major capital assets not being financed by proprietary funds.

Internal Service Fund - is used to account for the costs of operating and maintaining the Village's motor pool. Charges are made to other funds based on equipment used.

Agency Fund - is used to account for assets held by the Village as an agent for other governments and other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal on-going operation. The principal operating revenues of the Enterprise and Internal Services Funds are charges to customers for sales and services. Operating expenses from Enterprise and Internal Service Funds include costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first and the unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity -

Deposits and Investments -

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amount which reasonably approximates fair value.

State statutes authorize the Village to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

Receivables and Payables -

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible.

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Inventories and Prepaid Items -

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Property Tax Calendar -

The Village's property tax is levied as of July 1 on the assessed valuation of property located in the Village as of the preceding December 31. The taxes are due on July 31 with final collection date as of February 28, after which they are added to the delinquent tax roll.

Capital Assets -

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years, except for items capitalized in prior years in the proprietary funds which utilized a \$500 capitalized threshold. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the Village has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

Buildings	10-50
Land improvements	20
Utility systems	40-50
Machinery/equipment/vehicles	5-15

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts.

Long-Term Obligations -

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity -

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates -

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information -

Annual budgets are adopted for the General and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results.

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):

Prior to June 1, the Administrator/Clerk prepares, from data submitted from administration and officials of the Village, proposed budgets for the year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them. A public hearing is conducted to obtain the taxpayers' comments, and then prior to June 30, the budgets are legally enacted through passage of a resolution.

The General Fund budget was approved at the activity level and Special Revenue Funds budgets were approved at the function level, however, they are maintained at the account level for control purposes.

The Village does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Budget amounts are reported as originally adopted with no amendments made by the Village Council during the year.

Michigan Public Act 621 of 1978 Section 18, as amended, provides that a local government unit shall not incur expenditures in excess of the amount appropriated at the legally enacted level.

During the year ended June 30, 2005, the Village (primary government) incurred expenditures in the General Fund and Special Revenue Funds, which were in excess of the amounts appropriated at the function level as follows:

<u>Fund Type/Function/Activity</u>	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
General Fund -			
Fire Department	\$ 330,925	\$ 334,169	\$ 3,244
Police Department	926,925	944,983	18,058
Department of Public Works	185,200	194,393	9,193
Sanitation	180,005	183,355	3,350
Capital Outlay	37,000	79,503	42,503
Debt Service	7,300	56,836	49,536
Transfers Out	716,265	1,062,352	346,087
Special Revenue -			
Major Street Fund			
Transfers Out	43,800	51,443	7,643
Inspections Fund			
Public Safety	32,600	41,736	9,136
Local Street Fund			
Public Works	51,399	283,264	231,865

Other -

Although the Village made Electronic Fund Transactions an Automated Clearing House (ACH) policy had not been adopted as required by Public Act 738 of 2002.

As of June 30, 2005, the Village was invested in a mutual fund (Fidelity Prime Fund) that maintains investments that were not in compliance with Michigan Compiled Laws. Also, the Village did not have certifications from all of the financial institutions it deals with.

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of June 30, 2005, the carrying amount of the Village Reporting Entity's deposits and investments is as follows:

	Primary <u>Government</u>	Fiduciary <u>Fund</u>	Component <u>Unit</u>	Reporting <u>Entity</u>
Cash on hand -				
Petty Cash and Cash on Hand	\$ 440	\$ -	\$ -	\$ 440
Deposits with Financial Institutions -				
Checking/Money Market	2,806,435	650	219,285	3,026,370
Savings/Certificate of Deposit	<u>1,474,497</u>	<u>-</u>	<u>-</u>	<u>1,474,497</u>
Total Deposits	<u>4,281,072</u>	<u>650</u>	<u>219,285</u>	<u>4,501,307</u>
Investments -				
U.S. Government Securities	3,733,112	-	-	3,733,112
Mutual Fund	<u>587,964</u>	<u>-</u>	<u>-</u>	<u>587,964</u>
	<u>4,321,376</u>	<u>-</u>	<u>-</u>	<u>4,321,076</u>
 Grand Total	 <u>\$ 8,602,448</u>	 <u>\$ 650</u>	 <u>\$ 219,285</u>	 <u>\$ 8,822,383</u>
Reconciliation To Combined Balance Sheet				
Reported as Cash and Cash Equivalents -				
Petty Cash and Cash on Hand	\$ 440	\$ -	\$ -	\$ 440
Cash in Checking/Money Market	2,806,435	650	219,285	3,026,370
Cash in Saving	785,683	-	-	785,683
Mutual Fund	<u>587,964</u>	<u>-</u>	<u>-</u>	<u>587,964</u>
Total Cash and Cash Equivalents				
Reported on Combined Balance Sheet	<u>4,180,522</u>	<u>650</u>	<u>219,285</u>	<u>4,400,457</u>
Reported as Investments -				
CD's	688,814	-	-	688,814
U.S. Government Securities	<u>3,733,112</u>	<u>-</u>	<u>-</u>	<u>3,733,112</u>
Total Investments Reported on				
Combined Balance Sheet	<u>4,421,926</u>	<u>-</u>	<u>-</u>	<u>4,421,926</u>
 Grand Total-Combined Balance Sheet	 <u>\$ 8,602,448</u>	 <u>\$ 650</u>	 <u>\$ 219,285</u>	 <u>\$ 8,822,383</u>

The Village's investment policy primary objectives are foremost safety of principle, secondary the diversification of the investment portfolio, followed by maintaining adequate liquidity and return on investment. The Village Treasurer is responsible for the investing of the Village's funds in accordance with the Village's investment policy.

Custodial Credit Risk – is the risk that in the event of a bank failure, the Village's deposits or investments may not be returned. The Village's investment policy requires all financial institutions provide certain information to the Village regarding the financial condition and strength of the institution and that the Village annually examines the financial condition and registration of qualified financial institutions and brokers/dealers.

Interest Rate Risk – is the risk that the market value of securities in the Village's portfolio will fall due to changes in market interest increases. The Village attempts to minimize interest rate risk by maintaining liquidity to meet all operating requirements without the need to sell securities prior to maturity and investing operating funds primarily in short term securities, money markets mutual funds or similar public investment pools.

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

Credit Risk – is the risk that an issuer or counterparty to an investment will not fulfill its obligation. State laws and Village policy limit the types of investments and grades of investments the Village can purchase.

Concentration of Credit Risk – is the risk of loss attributed to the magnitude of the Village's investments in a single issuer. The Village's policy specifies that investments will be diversified by avoiding over concentration in securities issuer of business sector (excluding U.S. Treasury securities) and that investment shall have varying maturities. Investment instruments selection shall avoid high credit risks and shall include use of readily available funds, such as local government investment pools or mutual funds.

Deposits –

The Village's investment policy and Act 217 PA 1982, as amended, authorizes the Village to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, by section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of June 30, 2005 the bank balance of the Village's deposits were \$5,155,683 of which \$1,500,235 was FDIC insured with the balance of \$3,655,448 exposed to credit risk because they are uninsured and uncollateralized.

Investments -

Act 20 PA 1994 as amended by Act 1997 PA 1999 authorizes the Village to invest surplus funds in bonds, securities and other direct obligation of the United States government or an agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution only if the bank, savings and loan association, or credit union is eligible to be a depository of funds belonging to the State; bankers' acceptance of United States banks; commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 365, 129.111 to 129.118; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

As of June 30, 2005, the Village held the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rated</u>	<u>Maturity</u>
Treasuries and Federal Agencies			
Government National Mortgage Association	12,612	AAA	7 years
U.S. Treasury Bills/Notes	3,720,499	AAA	8-27 months
Fidelity Mutual Fund	587,964		35 days

NOTE 4 - TAXES:

The Village property taxes are levied each July on the assessment valuation of the property in the Village as of the preceding December 31, as adjusted by the March and July Board of Review.

Assessed values are established annually by the respective Village/Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property for the Village of Romeo for the fiscal year 2005 had a taxable value of \$246,697,145. The millage rates levied by the Village were 10.000 for General Operating and .489 for Municipal Streets.

The County of Macomb has established a Tax Collection Revolving Fund whereby all local units of government are paid for the delinquent real property taxes each year.

NOTE 5 - RECEIVABLES:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Taxes	\$ 81,248	\$ -
Accounts and Interest	11,316	370,398
Intergovernmental	<u>219,176</u>	<u>485,818</u>
	311,740	856,216
Less - Allowance for Uncollectible	(40,624)	-
	<u>\$ 271,116</u>	<u>\$ 856,216</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year the component of deferred revenue and unearned revenue reported in the governmental funds was as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund - Property Taxes	\$ <u>79,633</u>	\$ <u>-</u>

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:

The composition of interfund balances as of June 30, 2005:

Due To/From Other Funds -

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Major Street Fund	\$ 2,377
	Local Street Fund	12,999
	Municipal Street Fund	246
	Cemetery Fund	681
	Inspections Fund	72
	Wastewater System Fund	2,141
	Water Fund	5,208
	Motor Vehicle and Equipment Pool Fund	465
Municipal Street Fund	Local Street Fund	42,919
Wastewater System Fund	Water Fund	132
Motor Pool Fund	Major Street Fund	3,631
	Local Street Fund	19,880
	Cemetery Fund	1,318
	Wastewater System Fund	930
	Water Fund	<u>2,537</u>
		<u>\$ 95,536</u>

Due To/From Primary Government -

Downtown Development Authority	General Fund	<u>\$ 57,041</u>
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Transfers From/To Other Funds -

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Local Street Fund	Major Street Fund	\$ 26,292
Municipal Street Fund	General Fund	20,000
Cemetery Fund	Motor Vehicle and Equipment Pool Fund	18,000
Inspections Fund	General Fund	17,400
1994 Transportation Bond Fund	Major Street Fund	25,151
	Local Street Fund	18,000

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
1995 G.O. Bond Debt Fund	General Fund	103,068
Sidewalk Capital Projects Fund	1993 Assessment Debt Fund	37,226
Water Supply System Fund	General Fund	449,984
Wastewater Fund	General Fund	471,900
	Public Improvement Fund	<u>66,848</u>
Total Transfers		<u>\$ 1,253,869</u>

NOTE 7 - CAPITAL ASSETS:

Capital asset activity of the primary government for the year ended June 30, 2005 was as follows:

	<u>July 1, 2004</u>			<u>June 30, 2005</u>
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 681,473	\$ -	\$ -	\$ 681,473
Capital assets, being depreciated:				
Land improvements	321,545	75,550	-	397,095
Buildings and improvements	1,617,900	5,390	-	1,623,290
Machinery and equipment	635,618	85,371	-	720,989
Vehicles	1,118,693	94,471	75,842	1,137,322
Sidewalks	<u>75,644</u>	<u>-</u>	<u>-</u>	<u>75,644</u>
Total capital assets being depreciated	<u>3,769,400</u>	<u>260,782</u>	<u>75,842</u>	<u>3,954,340</u>
Less accumulated depreciation for:				
Land improvements	142,904	14,595	-	157,499
Buildings and improvements	520,113	31,745	-	551,858
Machinery and equipment	359,585	45,372	-	404,957
Vehicles	752,895	86,067	37,920	801,042
Sidewalks	<u>-</u>	<u>7,564</u>	<u>-</u>	<u>7,564</u>
Total accumulated depreciation	<u>1,775,497</u>	<u>185,343</u>	<u>37,920</u>	<u>1,922,920</u>
Total capital assets being depreciated, net	<u>1,993,903</u>	<u>75,439</u>	<u>37,922</u>	<u>2,031,420</u>
Governmental activities capital assets, net	<u>\$ 2,675,376</u>	<u>\$ 75,439</u>	<u>\$ 37,922</u>	<u>\$ 2,712,893</u>

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 7 - CAPITAL ASSETS – (cont'd):

	July 1, 2004			June 30, 2005
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 15,316	\$ -	\$ -	\$ 15,316
Construction in progress	<u>1,090,543</u>	<u>1,762,774</u>	<u>-</u>	<u>2,853,317</u>
	<u>1,105,859</u>	<u>1,762,774</u>	<u>-</u>	<u>2,868,633</u>
Capital assets, being depreciated:				
Buildings and improvements	7,285,842	-	-	7,285,842
Utility systems	7,870,222	22,253	-	7,892,475
Machinery and equipment	<u>1,669,798</u>	<u>33,386</u>	<u>-</u>	<u>1,703,184</u>
Total capital assets being depreciated	<u>16,825,862</u>	<u>55,639</u>	<u>-</u>	<u>16,881,501</u>
Less accumulated depreciation for:				
Buildings and improvements	3,683,564	170,137	-	3,853,701
Utility systems	1,930,930	177,354	-	2,108,284
Machinery and equipment	<u>1,610,204</u>	<u>19,569</u>	<u>-</u>	<u>1,629,773</u>
Total accumulated depreciation	<u>7,224,698</u>	<u>367,060</u>	<u>-</u>	<u>7,591,758</u>
Total capital assets being depreciated, net	<u>9,601,164</u>	<u>(311,421)</u>	<u>-</u>	<u>9,289,743</u>
Business activities capital assets, net	<u>\$ 10,707,023</u>	<u>\$ 1,451,353</u>	<u>\$ -</u>	<u>\$12,158,376</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 24,574
Public Safety	36,662
Public Works	<u>65,942</u>
Total depreciation expense-governmental activities	<u>\$ 127,178</u>
Business-type activities:	
Wastewater	\$ 169,650
Water Supply System	<u>197,410</u>
Total depreciation expense-business-type activities	<u>\$ 367,060</u>

In addition there was depreciation of \$58,165 in the Motor Pool Fund.

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 8 - LONG-TERM DEBT:

The following is a summary of changes in the long-term liabilities (including current portion) of the Primary Government for the year ended June 30, 2005:

	July 1, 2004	Additions	Reductions	June 30, 2005	Due Within One Year
<u>Governmental Activities:</u>					
1994 Transportation Bond	\$ 235,000	\$ -	\$ 30,000	\$ 205,000	\$ 35,000
1995 General Obligation Unlimited Tax Bonds	620,000	-	70,000	550,000	70,000
1994 Harron Cable Note	33,170	-	8,741	24,429	9,397
Parking Lot Land Contract	16,921	-	5,488	11,433	6,007
Accrued Vacation and Sick Pay	90,086	47,649	-	137,735	-
Lighting Project Capital Lease	60,421	-	15,951	44,470	16,828
Vehicle Capital Expense	<u>23,872</u>	<u>70,178</u>	<u>48,640</u>	<u>45,410</u>	<u>24,044</u>
	<u>1,079,470</u>	<u>117,827</u>	<u>178,820</u>	<u>1,018,477</u>	<u>161,276</u>
<u>Business-type Activities:</u>					
1998 General Obligation Unlimited Tax Refunding Bonds	1,470,000	-	270,000	1,200,000	270,000
2004 General Obligation Limited Tax Bonds	-	6,300,000	-	6,300,000	125,000
Accrued Vacation and Sick Pay	27,101	15,784	-	42,885	-
Installment Purchase Contract Booster Pump	570,903	-	65,682	505,221	68,637
Deferred Amounts for:					
Refunding Loss	(86,723)	-	(16,416)	(70,307)	-
Issuance Discounts	<u>-</u>	<u>(126,641)</u>	<u>(5,506)</u>	<u>(121,135)</u>	<u>-</u>
	<u>1,981,281</u>	<u>6,189,143</u>	<u>313,760</u>	<u>7,856,664</u>	<u>463,637</u>
	<u>\$ 3,060,751</u>	<u>\$ 6,306,970</u>	<u>\$ 492,580</u>	<u>\$ 8,875,141</u>	<u>\$ 624,913</u>

Significant details regarding outstanding long-term debt (including current portions) are presented as follows:

1994 Transportation Bonds:

The 1994 \$440,000 Transportation Bonds, dated October 1, 1994, due in annual installments ranging from \$35,000 to \$45,000 through October 1, 2009, with interest ranging 5.65 to 5.75 percent payable semi-annually. \$ 205,000

1995 General Obligation Unlimited Tax Bonds:

The 1995 \$995,000 General Obligation Unlimited Tax Bonds, dated October 1, 1995, due in annual installments ranging from \$70,000 to \$120,000 through May 1, 2010 with interest ranging from 5.25 to 5.70 percent, payable semi-annually. 550,000

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 8 - LONG-TERM DEBT – (cont'd):

1994 Harron Cable Note:

The 1994 \$95,000 Harron Cable Note, dated January 19, 1994, due in monthly installments of \$905, with interest of 7.25 percent payable monthly through May 19, 2008.

\$ 24,429

Parking Lot Land Contract:

The Village purchased a parking lot for \$125,000, dated April 22, 1999, on a land contract. During January 2000, an additional payment of \$80,000 was made to be applied to the principal balance owing. Payments are due in monthly installments of \$566, with interest 9.0 percent payable monthly through April 22, 2007.

11,433

Vehicle Capital Lease:

The Village entered into a lease purchase agreement for three police vehicles in the amount of \$70,178. The first annual payment of \$24,768 was made on the date of purchase. The remaining balance is due in installments of \$24,768, including interest of 6.0 percent payable annually through June 17, 2007.

45,410

Lighting Project Capital Lease:

The Village entered into a lease purchase agreement for a new exterior lighting retrofit project in the amount of \$88,500 on October 25, 2002. Payments are due in monthly installments of \$1,724, with interest of 6.54 percent payable monthly through October 1, 2007.

44,470

\$ 880,742

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 8 - LONG-TERM DEBT - (cont'd):

Enterprise Funds:

2004 General Obligation Limited Tax Bonds:

The 2004 \$6,300,000 General Obligation Limited Tax Bonds, dated December 1, 2004, were issued for improvements and expansion to the Wastewater System. The bonds are due in annual installments increasing from \$125,000 to \$450,000 through October 1, 2028; plus interest ranging from 4.0 to 6.0 percent, payable semi-annually.

\$ 6,300,000

1998 General Obligation Unlimited Tax Refunding Bonds:

The 1998 \$2,470,000 General Obligation Unlimited Tax Refunding Bonds, dated March 1, 1998, were issued to advance refund a portion of the 1989 General Obligation Unlimited Tax Bonds, dated September 1, 1989 call of \$1,175,000 and the 1992 General Obligation Water Supply Unlimited Tax Bonds, dated June 1, 1992, call of \$1,030,000. The net proceeds, after deducting issuance cost, were deposited in an escrow account and used to purchase U.S. Government Securities. Accordingly, the trust account assets and liabilities for the defeased bond issue are not included in the Village's financial statements. At June 30, 2005, \$1,170,000 of the debt defeased "in substance" remains outstanding.

The advance refunding resulted in an economic gain (difference between present value of the debt service payments on the old and new debt) of \$95,284. The 1998 bonds are due in annual installments of \$95,000 to \$270,000 through October 1, 2012, with interest ranging between 4.35 to 4.85 percent, payable semi-annually.

1,200,000

Contracts Payable:

The Village entered into an installment purchase contract, dated October 3, 2001, to finance the construction of booster pumps. Payments are due in semi-annual installments of \$45,182 with interest of 4.45 percent payable monthly through October 19, 2011.

505,221

\$ 8,005,221

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 8 - LONG-TERM DEBT - (cont'd):

Accrued Vacation and Sick Pay:

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts. The Governmental Fund portion of \$137,735 as well as the Enterprise Fund portion of \$42,885 has been recorded in the government-wide financial statements as a long-term liability.

\$ 180,620

Annual Debt Requirements -

The annual requirements to pay the debt outstanding at June 30, 2005, for the following bonds, notes and leases, (excluding accrued vacation and sick) of the Primary Government, are as follows:

Year	Governmental Activities						Business-Type Activities			
	G.O. Bonds		Notes		Leases		G.O. Bonds		Contract	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	105,000	38,059	15,399	2,248	40,353	5,154	395,000	347,063	68,637	21,727
2007	115,000	32,059	15,531	985	42,910	2,547	395,000	327,995	71,727	18,639
2008	125,000	25,292	4,932	479	6,617	93	245,000	312,288	74,953	15,412
2009	140,000	20,869	-	-	-	-	250,000	299,651	78,385	12,039
2010	270,000	17,442	-	-	-	-	255,000	286,762	81,850	8,515
2011-2015	-	-	-	-	-	-	1,335,000	1,226,118	129,669	5,814
2016-2020	-	-	-	-	-	-	1,350,000	948,800	-	-
2021-2024	-	-	-	-	-	-	1,650,000	607,319	-	-
2025-2028	-	-	-	-	-	-	1,625,000	167,938	-	-
	<u>\$ 755,000</u>	<u>\$ 133,721</u>	<u>\$ 35,862</u>	<u>\$ 3,712</u>	<u>\$ 89,880</u>	<u>\$ 7,794</u>	<u>\$7,500,000</u>	<u>\$4,523,934</u>	<u>\$ 505,221</u>	<u>\$ 82,146</u>

NOTE 9 - EMPLOYEE PENSION PLAN:

Plan Description -

The Village of Romeo participates in the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 9 - EMPLOYEE PENSION PLAN - (cont'd):

Funding Policy -

The plan adopted by the Village Council requires no member contributions. The Village is required to contribute at an actuarially determined rate; the weighted average rate for 2005 was 5.54%-26.98%. The contribution requirements of plan members and the Village are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

Annual Pension Costs -

For fiscal 2005, the Village's annual pension cost of \$129,688 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation (c) additional projected salary increases ranging from 4.5% to 12.9% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% annually for employees under benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the fund earns the expected rate of return (8%) and includes as adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

Three-Year Trend Information

Fiscal Year Ending June 30,	Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
2003	\$ 88,272	100 %	\$ -
2004	95,550	100	-
2005	129,688	100	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Over funded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2002	\$ 2,709,517	\$ 3,407,524	\$ 698,007	80 %	\$ 960,809	73 %
2003	2,874,370	3,619,954	745,584	79	1,037,276	72
2004	3,052,898	3,812,556	759,658	80	1,086,068	70

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 10 - POST RETIREMENT BENEFITS:

In addition to the pension benefits described in Note 9, the Village of Romeo provides post-retirement health care and life insurance benefits to all non-unionized employees who retire from the Village on or after attaining age 55 with at least 10 years of service. Expenditures for post-retirement health care and life insurance benefits are recognized on a pay-as-you-go basis. For the year ended June 30, 2005 these costs amounted to approximately \$120,733 with nine eligible participants.

NOTE 11 - WATER PURCHASES AGREEMENT:

On December 6, 1978, the Village of Romeo entered into an agreement with the City of Detroit, for the purchase of water for the Ford Motor Company. The agreement as amended, among other things, requires the Village to pay for a minimum of 11.0 million cubic feet of water at such rates as the City of Detroit may establish, assuming such rates are reasonable in relation to the cost incurred by the City of Detroit. The term of the agreement is for a period of at least thirty-five (35) years.

In conjunction the Village of Romeo entered into an agreement, dated October 30, 1978, with the Ford Motor Company who agreed to purchase water from the Village. The agreement, as amended in November, 1987, among other items, requires the Ford Motor Company to purchase 11.0 million cubic feet of water at such rates as established by the Village Board. The term of the agreement is for a period of thirty-five (35) years.

NOTE 12 - WASTEWATER TREATMENT FACILITY:

The Village has entered into an agreement, dated September 21, 1977, with Bruce Township whereby the Township purchased 15.93% of the Wastewater Treatment Plant's capacity. Under the agreement the Township funded 15.93% of the Village's share of construction costs and assumes certain annual operating costs, namely:

- a) 15.93% of the principal and interest owed on the former sewage treatment facility;
- b) 15.93% of fixed operating costs;
- c) A portion of the variable operating costs determined by the Township's percentage of flow in relation to the allocated Township capacity.

For the year ended June 30, 2005, the Township's portion of operating expenses is \$106,409.

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 13 - PRINCIPAL TAXPAYER AND UTILITY CUSTOMER:

The Ford Motor Company Engine Division, located within the Village, provides a significant portion of both property tax and utility revenues. Such revenues and the approximate percentage of the total individual revenues for the year ended June 30, 2005, are summarized below:

	<u>Revenues Provided</u>	<u>Approximate Percentage</u>
Property Taxes	\$ 1,546,032	61 %
Wastewater Treatment Service	103,474	21
Water Purchases	108,028	31

NOTE 14 - RESTRICTED ASSETS:

The restricted assets of \$2,262 in the Water Fund and \$5,848,515 in the Wastewater System Fund are for capital improvements.

NOTE 15 - DEFERRED COMPENSATION:

The Village offers all of its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer the Village of Romeo for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer for assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Village's financial statements.

NOTE 16 - INTERGOVERNMENTAL AGREEMENT:

On February 9, 1999 the Village of Romeo signed an agreement with the Township of Bruce. The agreement provides that the Township will provide Fire, Basic Life Support and Advanced Life Support Services to the Village for all fire and emergency medical calls originating within the Village. The Township acquired title to, and obtained ownership interest in, all vehicles and equipment owned by the Village for one (\$1.00) dollar. In the event this agreement is not renewed by the parties or is otherwise terminated, the Township shall re-convey all then existing equipment and vehicles, which it previously purchased from the Village for one (\$1.00) dollar. The Village will pay the Township a base rent plus an incremental rent. The agreement is for a term of four (4) years and five (5) months ending on June 30, 2004. The agreement is automatically renewed for successive four (4) years, unless either party notifies the other party twenty-four (24) months prior to the expiration of the agreement.

VILLAGE OF ROMEO, MICHIGAN
Macomb County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 17 - RISK MANAGEMENT:

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees, medical benefits provided to employees, etc. The Village has purchased issuance coverage for each of these types of losses, however would be responsible should limits of coverage be exceeded.

NOTE 18 - CONTINGENT LIABILITIES:

One of the Village's large commercial entities is claiming that they were inadvertently double assessed for certain personal property taxes. The claim has been dismissed by the Michigan Tax Tribunal and the Michigan Court of Appeals. The entity filed a motion for reconsideration with the Michigan Court of Appeals, which upheld the dismissal of the entities claim by the Michigan Tax Tribunal. The entity filed an Application for Leave to Appeal the decision of the Michigan Court of Appeals to the Michigan Supreme Court. The application was granted by the Supreme Court and a decision is not expected until mid-year of 2006. Should the entity prevail, the Village could be required to refund approximately \$740,000 of taxes.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF ROMEO, MICHIGAN

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2005

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Property taxes	\$ 2,484,100	\$ 2,396,762	\$(87,338)
Licenses and permits	1,500	1,370	(130)
Intergovernmental -			
State	421,000	402,558	(18,442)
Fines and forfeits	40,000	46,562	6,562
Interest and rents	9,500	26,663	17,163
Other	5,500	11,380	5,880
	<u>2,961,600</u>	<u>2,885,295</u>	<u>(76,305)</u>
Expenditures:			
General Government -			
Legislative	16,320	11,709	4,611
Elections	4,500	117	4,383
Clerk / Administrator	91,160	86,462	4,698
Treasurer	49,850	44,751	5,099
Village Hall	284,150	266,101	18,049
	<u>445,980</u>	<u>409,140</u>	<u>36,840</u>
Public Safety -			
Fire Department	330,925	334,169	(3,244)
Police Department	926,925	944,983	(18,058)
	<u>1,257,850</u>	<u>1,279,152</u>	<u>(21,302)</u>
Public Works -			
Department of Public Works	185,200	194,393	(9,193)
Sanitation	180,005	183,355	(3,350)
	<u>365,205</u>	<u>377,748</u>	<u>(12,543)</u>
Other	<u>132,000</u>	<u>121,309</u>	<u>10,691</u>
Capital Outlay	<u>37,000</u>	<u>79,503</u>	<u>(42,503)</u>
Debt Service	<u>7,300</u>	<u>56,836</u>	<u>(49,536)</u>
Total Expenditures	<u>2,245,335</u>	<u>2,323,688</u>	<u>(78,353)</u>
Excess of revenues over expenditures	<u>716,265</u>	<u>561,607</u>	<u>(154,658)</u>

Continued

VILLAGE OF ROMEO, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Other Financing Sources (Uses):			
Proceeds from capital lease	\$ -	\$ 70,178	\$ 70,178
Transfer Out	(716,265)	(1,062,352)	(346,087)
	<u>(716,265)</u>	<u>(992,174)</u>	<u>(275,909)</u>
 Excess of revenues under expenditures and other uses	 <u>-</u>	 <u>(430,567)</u>	 <u>(430,567)</u>
 Fund Balance at beginning of year	 <u>1,553,984</u>	 <u>1,553,984</u>	 <u>-</u>
 Fund Balance at end of year	 <u><u>\$ 1,553,984</u></u>	 <u><u>\$ 1,123,417</u></u>	 <u><u>\$(430,567)</u></u>

Concluded

VILLAGE OF ROMEO, MICHIGAN

MAJOR STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2005

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Intergovernmental -			
State - Act 51	\$ 94,000	\$ 125,459	\$ 31,459
Interest and rent	10,000	13,071	3,071
	<u>104,000</u>	<u>138,530</u>	<u>34,530</u>
Expenditures:			
Public Works -			
Routine maintenance		38,632	
Winter maintenance		10,964	
Village beautification		558	
Sidewalks		4,328	
Construction		424	
	<u>60,200</u>	<u>54,906</u>	<u>5,294</u>
Excess of revenues over expenditures	<u>43,800</u>	<u>83,624</u>	<u>39,824</u>
Other Financing Uses:			
Transfers Out -			
Local Street	(18,649)	(26,292)	(7,643)
1994 Transportation Bonds	(25,151)	(25,151)	-
	<u>(43,800)</u>	<u>(51,443)</u>	<u>(7,643)</u>
Excess of revenues over expenditures and other uses	-	32,181	32,181
Fund Balance at beginning of year	<u>998,031</u>	<u>998,031</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 998,031</u>	<u>\$ 1,030,212</u>	<u>\$ 32,181</u>

SUPPLEMENTARY INFORMATION

VILLAGE OF ROMEO, MICHIGAN

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS JUNE 30, 2005

Special Revenue Funds

	<u>Local Street</u>	<u>Municipal Street</u>	<u>Cemetery</u>	<u>Public Improvement</u>	<u>Inspections</u>
ASSETS					
Cash and cash equivalents	\$ 70,852	\$ 11,519	\$ 116,050	\$ 292,477	\$ 32,392
Receivables	-	1,597	-	-	80
Due from other governmental units -					
State	19,867	-	-	-	-
Local	-	-	-	40,557	-
Due from other funds	-	42,919	-	-	-
Prepaid expense	-	-	-	-	-
	<u>\$ 90,719</u>	<u>\$ 56,035</u>	<u>\$ 116,050</u>	<u>\$ 333,034</u>	<u>\$ 32,472</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payables	\$ 978	\$ 12,057	\$ 386	\$ 94,900	\$ 103
Accrued liabilities	596	70	1,440	-	1,690
Due to other funds	75,798	246	1,999	-	72
	<u>77,372</u>	<u>12,373</u>	<u>3,825</u>	<u>94,900</u>	<u>1,865</u>

Fund Balance:

Reserved -					
Prepaid	-	-	-	-	-
Debt Services	-	-	-	-	-
Capital Projects	-	-	-	-	-
Unreserved -					
Undesignated	13,347	43,662	112,225	238,134	30,607
	<u>13,347</u>	<u>43,662</u>	<u>112,225</u>	<u>238,134</u>	<u>30,607</u>
	<u>\$ 90,719</u>	<u>\$ 56,035</u>	<u>\$ 116,050</u>	<u>\$ 333,034</u>	<u>\$ 32,472</u>

Special Revenue Funds		Debt Service Funds			Capital Project Fund	Total
Library	Harron Cable	1993 Sidewalk Special Assessment	1994 Transportation Bonds	1995 G.O. Bond Debt	Highway Paving & Sidewalk	
\$ 40	\$ 13,659	\$ -	\$ 85,614	\$ 683	\$ 39,196	\$ 662,482
-	-	-	-	-	-	1,677
-	-	-	-	-	-	19,867
-	-	-	-	-	-	40,557
-	-	-	-	-	-	42,919
-	43,865	-	-	-	-	43,865
<u>\$ 40</u>	<u>\$ 57,524</u>	<u>\$ -</u>	<u>\$ 85,614</u>	<u>\$ 683</u>	<u>\$ 39,196</u>	<u>\$ 811,367</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 108,424
-	-	-	-	-	-	3,796
-	-	-	-	-	-	78,115
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>190,335</u>
-	43,865	-	-	-	-	43,865
-	-	-	85,614	683	-	86,297
-	-	-	-	-	39,196	39,196
<u>40</u>	<u>13,659</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>451,674</u>
<u>40</u>	<u>57,524</u>	<u>-</u>	<u>85,614</u>	<u>683</u>	<u>39,196</u>	<u>621,032</u>
<u>\$ 40</u>	<u>\$ 57,524</u>	<u>\$ -</u>	<u>\$ 85,614</u>	<u>\$ 683</u>	<u>\$ 39,196</u>	<u>\$ 811,367</u>

VILLAGE OF ROMEO, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2005

Special Revenue Funds

	<u>Local Street</u>	<u>Municipal Street</u>	<u>Cemetery</u>	<u>Public Improvement</u>	<u>Inspections</u>
Revenues:					
Taxes	\$ -	\$ 119,954	\$ -	\$ -	\$ -
Intergovernmental - State	74,534	-	-	-	-
Charges for services	-	-	13,100	-	14,845
Interest and rent	1,988	283	1,466	5,428	342
Other	-	2,688	56,398	-	-
	<u>76,522</u>	<u>122,925</u>	<u>70,964</u>	<u>5,428</u>	<u>15,187</u>
Expenditures:					
General Government	-	-	69,916	-	-
Public Safety	-	-	-	-	41,736
Public Works	283,264	98,808	-	200,316	-
Recreation and Cultural	-	-	-	-	-
Capital Outlay	-	-	6,578	-	-
Debt Service					
Principal	-	15,951	-	-	-
Interest and charges	-	4,737	-	-	-
	<u>283,264</u>	<u>119,496</u>	<u>76,494</u>	<u>200,316</u>	<u>41,736</u>
Excess of revenues over (under) expenditures	(206,742)	3,429	(5,530)	(194,888)	(26,549)
Other Financing Sources (Uses):					
Transfers in	26,292	20,000	18,000	-	17,400
Transfer out	(18,000)	-	-	(66,848)	-
	<u>8,292</u>	<u>20,000</u>	<u>18,000</u>	<u>(66,848)</u>	<u>17,400</u>
Excess of revenues and other sources over (under) expenditures and other uses	(198,450)	23,429	12,470	(261,736)	(9,149)
Fund Balances at beginning of year	<u>211,797</u>	<u>20,233</u>	<u>99,755</u>	<u>499,870</u>	<u>39,756</u>
Fund Balances at end of year	<u>\$ 13,347</u>	<u>\$ 43,662</u>	<u>\$ 112,225</u>	<u>\$ 238,134</u>	<u>\$ 30,607</u>

Special Revenue Funds		Debt Service Funds			Capital Project Fund	Total
Library	Harron Cable	1993 Sidewalk Special Assessment	1994 Transportation Bonds	1995 G.O. Bond Debt	Highway Paving & Sidewalk	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 119,954
-	-	-	-	-	-	74,534
-	-	-	-	-	-	27,945
-	10,450	539	431	-	15	20,942
-	43,865	2,185	-	-	-	105,136
-	54,315	2,724	431	-	15	348,511
-	-	-	-	-	-	69,916
-	-	-	-	-	-	41,736
-	-	-	232	-	-	582,620
-	39,617	-	-	-	-	39,617
-	-	-	-	-	-	6,578
-	8,741	-	30,000	70,000	-	124,692
-	2,119	-	13,150	32,493	-	52,499
-	50,477	-	43,382	102,493	-	917,658
-	3,838	2,724	(42,951)	(102,493)	15	(569,147)
-	-	-	43,151	103,068	37,226	265,137
-	-	(37,226)	-	-	-	(122,074)
-	-	(37,226)	43,151	103,068	37,226	143,063
-	3,838	(34,502)	200	575	37,241	(426,084)
40	53,686	34,502	85,414	108	1,955	1,047,116
\$ 40	\$ 57,524	\$ -	\$ 85,614	\$ 683	\$ 39,196	\$ 621,032

VILLAGE OF ROMEO, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2005

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
LOCAL STREET FUND			
Revenues:			
Intergovernmental -			
State - Act 51		\$ 65,218	
Public Act 48		9,316	
Interest		1,988	
	<u>\$ 50,750</u>	<u>76,522</u>	<u>\$ 25,772</u>
Expenditures:			
Public Works -			
Routine maintenance		193,952	
Traffic markers and street signs		5,865	
Winter maintenance		76,920	
Village beautification		974	
Construction		5,553	
	<u>51,399</u>	<u>283,264</u>	<u>(231,865)</u>
Excess of revenues over (under) expenditures	<u>(649)</u>	<u>(206,742)</u>	<u>(206,093)</u>
Other Financing Sources (Uses):			
Transfers In (Out) -			
Major Street	18,649	26,292	7,643
1994 Street Replacement	<u>(18,000)</u>	<u>(18,000)</u>	<u>-</u>
	<u>649</u>	<u>8,292</u>	<u>7,643</u>
Excess of revenues and other sources over (under) expenditures and other uses	-	(198,450)	(198,450)
Fund Balance at beginning of year	<u>-</u>	<u>211,797</u>	<u>211,797</u>
Fund Balance at end of year	<u><u>\$ -</u></u>	<u><u>\$ 13,347</u></u>	<u><u>\$ 13,347</u></u>

Continued

VILLAGE OF ROMEO, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
MUNICIPAL STREET FUND			
Revenues:			
Taxes		\$ 119,954	
Interest and rent		283	
Miscellaneous		2,688	
	<u>\$ 358,300</u>	<u>122,925</u>	<u>\$(235,375)</u>
Expenditures:			
Public Works -			
Routine Maintenance		20,875	
Street lighting		7,996	
Village beautification		43,009	
Sidewalks		26,928	
Debt Service		20,688	
	<u>358,300</u>	<u>119,496</u>	<u>238,804</u>
Excess of revenues over expenditures	-	3,429	3,429
Other Financing Uses:			
Operating Transfers In (Out) -			
General	-	20,000	20,000
Excess of revenues over expenditures and other uses	-	23,429	23,429
Fund Balance at beginning of year	<u>20,233</u>	<u>20,233</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 20,233</u>	<u>\$ 43,662</u>	<u>\$ 23,429</u>

Continued

VILLAGE OF ROMEO, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2005

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
CEMETERY FUND			
Revenues:			
Charges for services -			
Grave openings		\$ 13,100	
Interest and rent		1,466	
Other revenue -			
Sale of lots		50,050	
Miscellaneous		6,348	
	<u>\$ 49,000</u>	<u>70,964</u>	<u>\$ 21,964</u>
Expenditures:			
General Government -			
Salaries		37,865	
Fringe benefits		4,219	
Contracted Service		8,669	
Supplies		3,003	
Telephone		131	
Utilities		598	
Repairs and maintenance -			
Building and grounds		348	
Equipment		177	
Miscellaneous		37	
Equipment rental		14,869	
Capital Outlay		6,578	
	<u>79,000</u>	<u>76,494</u>	<u>2,506</u>
Excess of revenues under expenditures	(30,000)	(5,530)	24,470
Other Financing Sources:			
Transfers in -			
Motor Vehicle and Equipment Pool	<u>30,000</u>	<u>18,000</u>	<u>(12,000)</u>
Excess of revenues and other sources over expenditures	-	12,470	12,470
Fund Balance at beginning of year	<u>99,755</u>	<u>99,755</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 99,755</u>	<u>\$ 112,225</u>	<u>\$ 12,470</u>

VILLAGE OF ROMEO, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2005

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
PUBLIC IMPROVEMENT FUND			
Revenues:			
Interest and rent	\$ 275,000	\$ 5,428	\$(269,572)
Expenditures:			
Public Works -			
Contracted services		132,189	
Other		68,127	
	<u>208,152</u>	<u>200,316</u>	<u>7,836</u>
Excess of revenues under expenditures	66,848	(194,888)	(261,736)
Other Financing Uses:			
Transfers out -			
Sewer Fund	(66,848)	(66,848)	-
Excess of revenues under expenditures and other uses	-	(261,736)	(261,736)
Fund Balance at beginning of year	<u>499,870</u>	<u>499,870</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 499,870</u></u>	<u><u>\$ 238,134</u></u>	<u><u>\$(261,736)</u></u>

Continued

VILLAGE OF ROMEO, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2005

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
INSPECTIONS FUND			
Revenues:			
Permits			
Building		\$ 6,197	
Electrical		2,167	
Heating		6,481	
Interest		342	
	<u>\$ 32,600</u>	<u>15,187</u>	<u>\$ (17,413)</u>
Expenditures:			
Public Safety -			
Salaries		32,009	
Fringe benefits		2,480	
Supplies		293	
Contracted services		2,786	
Telephone		954	
Education and training		2,916	
Other		298	
	<u>32,600</u>	<u>41,736</u>	<u>(9,136)</u>
Excess of revenues over (under) expenditures	-	(26,549)	(26,549)
Other Financing Sources:			
Transfers in -			
General Fund	<u>-</u>	<u>17,400</u>	<u>17,400</u>
Excess of revenues and other financing sources under expenditures	-	(9,149)	(9,149)
Fund Balance at beginning of year	<u>39,756</u>	<u>39,756</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 39,756</u></u>	<u><u>\$ 30,607</u></u>	<u><u>\$ (9,149)</u></u>

Continued

VILLAGE OF ROMEO, MICHIGAN
NONMAJOR SPECIAL REVENUE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
LIBRARY FUND			
Revenues:			
Delinquent Personal Property Tax	\$ -	\$ -	\$ -
Interest and rent	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:			
Recreation and Cultural - Romeo District Library	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	-	-	-
Fund Balance at beginning of year	<u>40</u>	<u>40</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 40</u></u>	<u><u>\$ 40</u></u>	<u><u>\$ -</u></u>

Continued

VILLAGE OF ROMEO, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2005

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
HARRON CABLE FUND			
Revenues:			
Interest and rents		\$ 10,450	
Other -			
Franchise fees		43,865	
	<u>\$ 50,860</u>	<u>54,315</u>	<u>\$ 3,455</u>
Expenditures:			
Recreation and Cultural -			
Tri-Community Cable Communication			
Commission		39,617	
Debt Service		10,860	
	<u>50,860</u>	<u>50,477</u>	<u>383</u>
Excess of revenues over expenditures	-	3,838	3,838
Fund Balance at beginning of year	<u>53,686</u>	<u>53,686</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 53,686</u>	<u>\$ 57,524</u>	<u>\$ 3,838</u>

Concluded

FIDUCIARY FUNDS

AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2005

- 55 -

VILLAGE OF ROMEO, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY
BALANCE SHEET
JUNE 30, 2005

Current Assets:

Cash and cash equivalents	\$ 219,285
Due from primary government	<u>57,041</u>
	<u><u>\$ 276,326</u></u>

Fund Balance:

Unreserved/Undesignated	<u><u>\$ 276,326</u></u>
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes	\$ 64,700	\$ 127,993	\$ 63,293
Interest and rents	<u>120</u>	<u>3,150</u>	<u>3,030</u>
	64,820	131,143	66,323
Expenditures:			
Public Works -			
Miscellaneous	<u>64,820</u>	<u>66,185</u>	<u>(1,365)</u>
Excess of revenues over expenditures	-	64,958	64,958
Fund Balance at beginning of year	<u>211,368</u>	<u>211,368</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 211,368</u></u>	<u><u>\$ 276,326</u></u>	<u><u>\$ 64,958</u></u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the President and Members of
The Village Council of Trustees
Village of Romeo, Michigan

We have audited the financial statements of the Village of Romeo, Michigan, as of and for the year ended June 30, 2005, and have issued our report thereon, dated October 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Romeo, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

We also noted certain other matters involving the internal control over financial reporting that we reported to management of the Village of Romeo, Michigan's in a separate letter dated October 25, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Romeo, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance or other matters, which are required to be reported under *Government Auditing Standards*.

The Village held investments which were not in compliance with Michigan Compiled Laws and did not receive certification from each of the financial institutions in which it has deposits.

As of June 30, 2005, the Village held a mutual fund, Fidelity Prime Fund, which held investments that were not permissible under Michigan Compiled Laws. Michigan Compiled Laws require that all investments in a mutual fund be "investment vehicles" that are legal for direct investment by a public corporation. Based on the reports provided, we noted that mutual funds held certificates of deposits for banks not located in the State of Michigan as required by Michigan Compiled Laws. In fact, it held certificates for a number of foreign banks. The portfolio also included commercial paper of foreign financial institutions which we are unsure whether it is permissible under Michigan Compiled Laws.

We recommend that the Village review the investment portfolio with the investment advisor to ensure its compliance with Michigan Compiled Laws.

In addition, we noted the certifications required by Public Act 20 of 1943, as amended, had not been obtained from all financial institutions the Village utilized. We recommend that certifications be obtained from all financial institutions the Village utilizes.

This report is intended solely for the information of the audit committee, management and others within the organization, and Township Board and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

October 25, 2005

MANAGEMENT LETTER

To the President and Members
of the Village Board of Trustees
Village of Romeo, Michigan

We have recently completed our audit of the records of the Village of Romeo, Michigan, for the year ended June 30, 2005. As noted in the Report on Compliance and Internal Control over Financial Reporting, dated October 25, 2005, there were no compliance issues or material weaknesses that were required to be reported under Government Auditing Standards.

However, as we discussed, this is the second year that the Village was audited under the new Statement of Auditing Standards No. 99 "Consideration of Fraud in the Financial Statement Audit", which became effective for audits ending on or after December 31, 2003. SAS 99 put renewed emphasis on internal control over fraud and abuse in the workplace. It requires that we "brainstorm" on how fraud and abuse can be committed in an entity and design tests with this in mind. The new standard also requires improved communications with the client on possible areas of fraud and abuse. As a result, we believe that certain changes in your accounting and administrative procedures would enhance controls that the Village has in place.

All cash receipts, including taxes, should be recorded at the time they are received.

Currently when taxes are paid they are not receipted into the cash receipting program but rather given to the Treasurer and receipted at a later time. Controls could be increased if all cash receipts were directly receipted into the accounting package at the time they are paid.

Improve control over electronic transactions.

Public Act 738 of 2002 requires that each governing body adopt a policy for Automated Clearing House (ACH) arrangements and Electronic Transactions of Funds. The policy should contain procedures and personnel responsible for payments approval, accounting, reporting and general overseeing of compliance issues.

We recommend that a resolution for such a policy be adopted. In addition a record of all electronic transactions should be maintained to document which accounts are involved and the purpose of the transfer.

The procedures for approving vendor invoices could be enhanced.

During the audit it was noted that the Village Council approves a listing of invoices for payment at each meeting; however, it does not include reoccurring routine invoices such as heat, electric, telephone, etc.

To comply with Michigan Compiled Laws and increase controls, we recommend that all invoices be approved by the Village Council. Because certain invoices need to be paid in advance of the Council meeting, to take advantage of discounts, etc., certain routine invoices could be paid prior to the meeting and submitted for approval at the next meeting.

These conditions were considered in determining the nature, timing and extent of the audit tests applied in our audit of the June 30, 2005 financial statements. We have considered internal control since the date of our report. It is always important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information of management and the Board of Trustees of the Village of Romeo, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss any or all of these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beauvois & Whipple".

October 25, 2005